TITLE 86: REVENUE

PART 100
INCOME TAX

Section 100.2455 Subtraction Modification: Federally Disallowed Deductions (IITA Sections 203(a)(2)(M), 203(b)(2)(I), 203(c)(2)(L) and 203(d)(2)(J))

a) Taxpayers are entitled to subtract from taxable income (adjusted gross income, in the case of an individual), *an amount equal to the sum of all amounts disallowed as deductions by sections 171(a)(2) and 265(2) of the Internal Revenue Code of 1954, and all amounts of expenses allocable to interest and disallowed as deductions by section 265(1) of the Internal Revenue Code of 1954, and, for taxable years ending on or after August 13, 1999, sections 171(a)(2), 265, 280C, 291(a)(3) and 832(b)(5)(B)(i) of the Internal Revenue Code.* (IITA Section 203) In order to prevent double deductions, no subtraction is allowed under these provisions for amounts already subtracted because of an exemption from taxation by virtue of Illinois law or the Illinois or U.S. Constitution, or by reason of U.S. treaties or statutes (see Section 100.2470).

b) Section 171 of the Internal Revenue Code requires amortization of premiums paid for a tax-exempt bond over the period between the purchase date and either the maturity date or, if earlier, the first date on which the bond may be called. Section 171(a)(2) of the Internal Revenue Code states that, when the interest of a tax-exempt bond is excludable from gross income, there shall be no deduction for the amortizable bond premium for the taxable year. The IITA allows taxpayers to subtract the bond premium amortization required by section 171 of the Internal Revenue Code for that year to the extent the taxpayer was prohibited from deducting the amortization by section 171(a)(2) of the Internal Revenue Code. Illinois does not provide any adjustment to federal taxable income (adjusted gross income in the case of an individual) related to gains or losses on the sales of bonds. The only subtraction is for the amortization of bond premium that is allocable to that particular tax year. If the bond is called before maturity, then there is no subtraction for periods after the call date.

c) Section 265 of the Internal Revenue Code provides that no deduction shall be allowed from federal taxable income (adjusted gross income in the case of an individual) for expenses relating to tax-exempt income (section 265(a)(1) of the Internal Revenue Code), and for interest relating to tax-exempt income (section 265(a)(2) of the Internal Revenue Code). These expense and interest amounts, determined in a manner consistent with the provisions of the Internal Revenue Code, are allowable subtractions for Illinois income tax purposes.

d) Section 280C(a) of the Internal Revenue Code provides that no deduction shall be allowed for that portion of wages or salaries paid or incurred for the taxable year that is equal to the sum of the credits determined for the taxable year under sections 45A (the Indian Employment Credit), 51(a) (the Work Opportunity Credit), 1396(a) (the Empowerment Zone Employment Credit), 1400P(b) (employer provided housing for individuals affected by Hurricane Katrina), and 1400R (employee retention by employers affected by hurricanes) of the Internal Revenue Code. Section 280C(b) of the Internal Revenue Code provides that no deduction shall be allowed for that portion of the qualified clinical testing expenses for certain drugs for rare diseases or conditions otherwise allowable as a deduction for the taxable year that is equal to the amount of the credit allowable for the taxable year under section 45(C) of the Internal Revenue Code. Section 280(C)(c) of the Internal Revenue Code provides that no deduction or credit shall be allowed for that portion of the qualified research expenses or basic research expenses otherwise allowable as a deduction or credit for the taxable year that is equal to the amount of the credit determined for such taxable year under section 41(a) of the Internal Revenue Code.

e) Section 291(a)(3) of the Internal Revenue Code provides that the amount allowable as a deduction with respect to certain financial institution preference items shall be reduced by 20%. Illinois provides a subtraction modification for the remaining 20% not deducted federally with respect to those financial institution preference items.

f) Section 835(b)(5)(B)(i) of the Internal Revenue Code provides that the amount of federal deduction for losses incurred on insurance company contracts shall be reduced by an amount equal to 15% of the sum of tax-exempt interest received or accrued during the taxable year. Illinois provides a subtraction modification for the remaining 15% not deducted federally with respect to the tax-exempt interest received or accrued during the taxable year from insurance company contracts.

(Source: Added at 32 Ill. Reg. 10170, effective June 30, 2008)